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**FISCAL IMPACT STATEMENT**

**LS 7763**

**BILL NUMBER:** HB 1598

**NOTE PREPARED:** Jan 10, 2003

**BILL AMENDED:**

**SUBJECT:** Pull Tabs.

**FIRST AUTHOR:** Rep. Reske

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** The bill authorizes the sale of pari-mutuel pull tabs at race tracks and satellite facilities and imposes a wagering tax of 32.5% on a permit holder's first \$150 M of adjusted gross receipts and 37.5% on adjusted gross receipts exceeding \$150 M. The bill distributes pull tab wagering tax revenue in various amounts to the following: the City of Anderson, Madison County, Madison County schools, the other cities and towns of Madison County, Shelby County, the City of Indianapolis, the Marion County Housing Trust Fund, Marion County, Marion County schools, the various horsemen's associations, the Indiana Horse Racing Commission, and the state General Fund. The bill also imposes a Breed Development Fee and a Supplemental Fee. The bill establishes the Minority and Women Business Participation Fund consisting of fees and civil penalties imposed upon riverboats and pull tab operators.

**Effective Date:** July 1, 2003.

**Explanation of State Expenditures:** *Pari-mutuel Pull Tabs:* The bill requires the Indiana Gaming Commission (IGC) to regulate and administer pari-mutuel pull tab operations. The IGC would incur additional administrative expenses as a result. However, the bill requires that the holder of a pull tab license or supplier's license bear the cost of any investigation by the IGC relating to the licensee. Also, the bill allows the IGC to impose an administrative fee on race track or satellite facility permit holders offering pull tab games in an amount that allows the IGC to recover the costs of administering pari-mutuel pull tabs.

*Purchasing Goals:* The bill establishes minority and women's business purchasing goals for pari-mutuel permit holders who sell pari-mutuel pull tabs. It places responsibility for enforcement of these requirements under the IGC. Currently, the IGC administers similar requirements for riverboats. The bill also establishes the Minority and Women Business Participation Fund to be administered by the IGC. Under the bill, the

Fund contains fines for violations of the minority and women business purchasing requirements and an annual fee of \$10,000 imposed on each riverboat and each racetrack or satellite facility selling pull tabs. The Department of Administration may use fee money in the Fund to hire employees to administer the purchasing goals program. Otherwise, the money in the Fund is to be used to assist women and minority business enterprises. Expenses of administering the Fund must be paid from money in the Fund.

*Withholding on Pull Tab Winnings:* The Department of State Revenue (DOR) would incur some administrative expenses relating to withholding requirements for pari-mutuel pull tab winnings. These expenses presumably could be absorbed given the DOR's existing budget and resources.

**Explanation of State Revenues:** *Pari-mutuel Pull Tabs:* The bill authorizes the sale of pari-mutuel pull tabs at Hoosier Park, the Marion County satellite facility operated by Hoosier Park, Indianapolis Downs, and a Marion County satellite facility operated by Indianapolis Downs. The bill limits the number of electronic pull tab terminals or devices that may be installed to 700 per facility. The bill also imposes a graduated Wagering Tax and a flat rate Purse Money/Breed Development Fee on pull tab receipts. Estimated revenue from the Wagering Tax imposed at the four facilities could potentially total \$55.4 M to \$92.2 M annually. Assuming at least 12 months for startup, the first full-year of tax revenue could potentially be FY 2005.

Under the bill, 70% of the Wagering Tax revenue is distributed to the Indiana Horse Racing Commission (IHRC) and the state General Fund. This distribution could potentially total \$38.8 M to \$64.5 M annually. The first \$27.0 M annually is distributed to the IHRC, with the remainder distributed to the state General Fund. The estimates suggest that once all four pull tab facilities are operating, the full \$27.0 M could be distributed to the IHRC. Thus, once all four pull tab facilities are operational, the annual Wagering Tax distribution to the state General Fund could potentially total \$11.8 M to \$37.5 M. Also, under the bill, Wagering Tax revenue flowing to the IHRC would replace, dollar-for-dollar, the Riverboat Admission Tax revenue currently distributed to the IHRC. The replaced Admission Tax revenue to the state General Fund could potentially total \$27.0 M once all four pull tab facilities are operating.

**Caveats:** The fiscal estimates are not adjusted to account for the potential negative effect that riverboat gaming operations may have on wagering at pari-mutuel pull tab facilities located in central Indiana. Thus, actual Wagering Tax revenue could potentially be less than estimated to the extent that these facilities share their markets with riverboat casinos. In addition, the fiscal estimates do not account for potential decline in Admission and Wagering Tax revenue at the riverboat casinos due to the pari-mutuel pull tab operations in central Indiana. These potential competitive impacts on the fiscal outcomes are indeterminable. It is also important to note that Indianapolis Downs has, at this time, not established a satellite facility in Marion County. Thus, total estimated Wagering Tax revenue could potentially be reduced by \$17.3 M to \$25.5 M annually in the absence of the second Marion County satellite facility.

**Wagering Tax:** The bill imposes a graduated Wagering Tax on pari-mutuel permit holders selling pull tabs at racetracks or satellite facilities. The tax is imposed on the permit holder's combined adjusted gross wagering receipts (AGR) from pull tab sales. The tax is 32.5% on the first \$150 M in annual AGR and 37.5% on annual AGR exceeding \$150 M. It is estimated that annual AGR from Hoosier Park will total \$101.3 M to \$170.5 M and \$69.1 M to \$110.1 M from Indianapolis Downs. This would yield a total of \$55.4 M to \$92.2 M annually from the Wagering Tax (\$32.9 M to \$56.4 M from Hoosier Park facilities and \$22.4 M to \$35.8 M from Indianapolis Downs facilities).

**Purse Money and Breed Development Fee:** The bill imposes a Purse Money and Breed Development Fee on pari-mutuel permit holders who sell pull tabs. The fee would be imposed on the "net receipts" from such

sales defined as the AGR from pull tab sales minus the amount paid in wagering tax on pull tabs. The fee would be imposed as specified in the table below beginning the third year in which the permit holder sells pull tabs. Revenue from the fee would be distributed to the Horse Racing Commission for purses and breed development. The revenue impact is based on the estimated AGR range less the Wagering Tax from both pari-mutuel permit holders (Hoosier Park and Indianapolis Downs).

<b>Year of Selling Pull Tabs</b>	<b>Fee</b>	<b>Revenue (\$)</b>
3 <sup>rd</sup> year	2%	\$2.3 - 3.8 M
4 <sup>th</sup> year	2%	\$2.3 - 3.8 M
5 <sup>th</sup> year	5%	\$5.7 - 9.4 M
6 <sup>th</sup> year	7%	\$8.0 - 13.2 M
7 <sup>th</sup> year	8%	\$9.2 - 15.1 M
8 <sup>th</sup> year	9%	\$10.3 - 17.0 M
9 <sup>th</sup> year	10%	\$11.5 - 18.8 M
10 <sup>th</sup> year and each year thereafter	12%	\$13.8 - 22.6 M

Annual Supplemental Fee: The bill requires the Horse Racing Commission to impose an annual fee of \$250,000 on each pari-mutuel permit holder. The bill requires 50% of the annual revenue from the fee to be used for training facilities and capital improvements, including stall improvements. The bill requires the remaining 50% in fee revenue to be used to promote live racing at county and 4-H fairgrounds.

License Fees: The bill provides for a pari-mutuel pull tab license and a pari-mutuel pull tabs supplier's license. The initial pull tab license would be effective for 5 years. The annual renewal fee would be determined by the Indiana Gaming Commission. The annual fee for a supplier's license would be \$5,000. The bill requires a person to obtain a supplier's license to furnish pari-mutuel pull tab terminals or devices in Indiana. The license fee revenue will be minimal as there will be only two pull tabs licensees and the number of suppliers necessary to provide 2,800 pull tab terminals to four facilities is minimal.

Existing Pari-Mutuel Admission Tax: Revenue from the existing \$0.20 Pari-mutuel Admissions Tax could potentially increase if pari-mutuel pull tab sales serve to increase paid attendance to live horse racing at Hoosier Park. The total impact could potentially total \$52,000 to \$139,000 annually. Under current law, 50%, or \$26,000 to \$69,500, would be distributed to the state General Fund.

Horse Racing Tax Distributions: The bill requires that the first \$27.0 M in state revenue from Wagering Tax on pull tabs be distributed to the Indiana Horse Racing Commission (IHRC). The bill also provides that this distribution replace revenue from the Riverboat Admission Tax that otherwise is distributed to the IHRC. Under current statute, the annual distribution of Riverboat Admission Tax revenue to the IHRC is capped at \$27.2 M (the FY 2002 distribution amount). Thus, revenue from pull tab operations by Hoosier Park and Indianapolis Downs is expected to replace all but \$200,000 of the Admission Tax distribution. This could potentially begin in FY 2005. The bill distributes the replaced Admission Tax revenue to the state General Fund.

**Fiscal Impact Details:** The fiscal impact is based on a range of estimates of the number of patrons purchasing pull tabs at Hoosier Park and its Marion County satellite facility. The estimates are based on patron growth rates observed at Iowa racing venues after the installation of slot machines in 1995. The base patron total for Hoosier Park live racing is the actual 2001 admissions. Base patron totals at Hoosier Park for simulcast racing and at Hoosier Park's Marion County satellite facility are imputed based on the actual 2001 wagering handle for each and the 2001 actual handle per patron at the Merrillville satellite facility. Patronage at Hoosier Park's downtown Marion County satellite facility is adjusted down to account for the impact of tourism. The estimated Hoosier Park facility patronage totals are scaled down to estimate patronage for Indianapolis Downs. This is based on projections of gaming industry analysts relating to the relative scale of pull tab operations at facilities of both permit holders. It is assumed that AGR per patron equals \$65 to derive AGR totals for each permit holder.

***Withholding on Pull Tab Winnings:*** The bill requires permit holders selling pari-mutuel pull tabs to withhold and remit to the Department of State Revenue Adjusted Gross Income (AGI) Tax on pull tab winnings of \$1,200 or more. The bill requires withholding even if federal tax withholding is not required. The bill also requires payment of withholdings on a next (business) day basis. Under current statute, the same withholding requirement applies to riverboat owners for certain winnings. This requirement could potentially generate AGI Tax revenue that would otherwise not be collected from nonresidents gambling at Indiana pari-mutuel pull tab facilities. However, the precise impact of this requirement is indeterminable at this time. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

***Penalties:*** The bill makes it a Class A misdemeanor for a person to knowingly or intentionally aid, induce, or cause a person less than 21 years of age and who is not an employee of a riverboat to enter or attempt to enter a riverboat. It also makes it a Class A misdemeanor for a person who is less than 21 years of age and who is not an employee of a riverboat to knowingly or intentionally enter or attempt to enter a riverboat.

If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General Fund would increase. The maximum fine for a Class A misdemeanor is \$5,000. Criminal fines are deposited in the Common School Fund. If the case is filed in a circuit, superior, or county court, 70% of the \$120 court fee that is assessed and collected when a guilty verdict is entered would be deposited in the state General Fund. If the case is filed in a city or town court, 55% of the fee would be deposited in the state General Fund.

**Explanation of Local Expenditures:** *Penalties:* A Class A misdemeanor is punishable by up to one year in jail. The average daily cost to incarcerate a prisoner in a county jail is approximately \$44.

**Explanation of Local Revenues:** *Pari-Mutuel Pull Tabs:* The bill authorizes the sale of pari-mutuel pull tabs at Hoosier Park, the Marion County satellite facility operated by Hoosier Park, Indianapolis Downs, and a Marion County satellite facility operated by Indianapolis Downs. The bill limits the number of electronic pull tab terminals or devices that may be installed to 700 per facility. The bill also imposes a graduated Wagering Tax and a flat rate Purse Money/Breed Development Fee on pull tab receipts. Estimated revenue from the Wagering Tax imposed at the four facilities could potentially total \$55.4 M to \$92.2 M annually. Assuming at least 12 months for startup, the first full year of tax revenue could potentially be FY 2005. Under the bill, 30% of the Wagering Tax revenue is distributed to local units in Madison County, Marion County, and Shelby County. The estimated local distribution could potentially total \$16.6 M to \$27.7 M annually with all four pull tab facilities operational.

The distribution of the local share of Wagering Tax revenue paid by each pari-mutuel permit holder (Hoosier Park and Indianapolis Downs) depends on the portion of each permit holder's AGR that is attributable to the track facility vs. the Marion County satellite facility. Estimated local distributions are presented in the three tables below. This is based on estimates of the percentage of each permit holder's AGR attributable to pull tab sales at their track facilities and Marion County satellite facilities. It is estimated that about 43% of Hoosier Park's pull tab AGR will be attributable to the track facility, with the remaining 57% coming from the Marion County satellite facility. The estimated breakdown for Indianapolis Downs is 25% from the track facility, with 74% coming from Marion County.

#### **Estimated Distributions to Madison County Local Units**

<b>Recipient</b>	<b>Distribution</b>
Anderson	\$2.5 M - \$4.2 M
Madison County Capital Projects Fund	722,000 - 1.2 M
Madison County School Corporations (divided on a pro rata basis)	722,000 - 1.2 M
Madison County Cities and Towns excluding Anderson (divided on a pro rata basis)	340,000 - 582,000
<b>Total</b>	<b>\$4.2 M - \$7.3 M</b>

#### **Estimated Distributions to Shelby County Local Units**

<b>Recipient</b>	<b>Distribution</b>
Shelby County	\$875,000 - \$1.4 M
Shelbyville (if it annexes the land containing the track)	875,000 - 1.4 M
<b>Total</b>	<b>\$1.8 M - \$2.8 M</b>

#### **Estimated Distributions to Marion County Local Units**

<b>Recipient</b>	<b>Distribution</b>
Indianapolis	\$4.4 M - \$7.3 M
Indianapolis Housing Trust Fund	2.2 M - 3.7 M
Marion County	1.3 M - 2.2 M
Marion County School Corporations (divided on a pro rata basis)	2.7 M - 4.4 M
<b>Total</b>	<b>\$10.6 M - \$17.6 M</b>

Existing Pari-Mutuel Admission Tax: Revenue from the existing \$0.20 Pari-mutuel Admissions Tax could potentially increase if pari-mutuel pull tab sales serve to increase paid attendance to live horse racing at Hoosier Park. The total impact could potentially total \$52,000 to \$139,000 annually. Under current law, 50%, or \$26,000 to \$69,500, would be distributed in equal shares to Anderson and Madison County.

*Penalties:* If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from the following sources: (1) The county general fund would receive 27% of the \$120 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. (2) A \$3 fee would be assessed and, if collected, would be deposited into the county law enforcement continuing education fund. (3) A \$2 jury fee is assessed and, if collected, would be deposited into the county user fee fund to supplement the compensation of jury members.

**State Agencies Affected:** **State Agencies Affected:** Indiana Gaming Commission, Indiana Horse Racing Commission, State Department of Revenue.

**Local Agencies Affected:** Local units in Marion County, Madison County, and Shelby County. Trial courts, local law enforcement agencies.

**Information Sources:** *Monthly Summary of Wagering and Admission Tax*, Indiana Gaming Commission. Indiana Sheriffs Association, Department of Correction.

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